Issued by Citigate Dewe Rogerson, Birmingham
Date: Thursday, 29 April 2004

Embargoed 7.00am

The Character Group plc

Interim Results for the six months ended 29 February 2004

	2004	2003
Turnover	**£40.9m**	£40.0m
Operating Profit	**£2.2m**	£4.3m
Profit before tax	**£2.0m**	£4.0m
Earnings per Share	**4.22p**	8.80p
Interim dividend	**1.10p**	1.00p

"The 2004 interim results reflect the change in the sales mix with strong growth of lower margin digital sales, a planned increase in marketing expenditure set against lower than anticipated UK sales of Toys, Games and Giftware, and additional research and development costs absorbed within the period.

"Within the digital products business, we are looking to achieve another solid performance in the second half and, with the US distributor anticipated to be in-place shortly, we expect a contribution to the Group's digital product performance from the US by the end of the financial year.

"Whilst trading continues to be tough within the toys, games and giftware sectors, our internal forecasts currently indicate a much stronger performance for the second half of the financial year and, particularly, in the all important period leading up to Christmas 2004.

"The Directors remain confident for the full financial year to August 2004 and do not expect profits to be less than the previous financial year ended August 2003.

"Interim dividend increased by 10%."

Richard King, Chairman

FULL STATEMENT ATTACHED

Enquiries:

Richard King, Chairman
Kiran Shah, Group Finance Director
The Character Group plc
Today: 020 7282 8000
Thereafter: 020 8949 5898
Mobile: 07836 250150 (RK)
Mobile: 07956 278522 (KS)
www.charactergroup.plc.uk

Fiona Tooley, Director
Citigate Dewe Rogerson
Today: 0207 282 8000
Thereafter: 0121 455 8370
Mobile: 07785 703523

Katie Dale, Account Manager
Tel: 0121 455 8370
Mobile: 07980 274790

The Character Group plc
Interim Results for the six months ended 29 February 2004

Statement by the Chairman, Richard King
We indicated in our statement issued at our Annual General Meeting on 21 January 2004 that trading for the first half would be lower than in the comparable period last year.

We are, however, pleased to announce that, in spite of some adverse factors which prevented the Group from taking full advantage of a number of growth opportunities and the continued difficult trading environment, we have achieved a first half result broadly in line with our revised expectations.

The 2004 interim results reflect the change in the sales mix with strong growth of lower margin digital sales, a planned increase in marketing expenditure set against lower than anticipated UK sales of Toys, Games and Giftware, and additional research and development costs absorbed within the period.

Results
Sales in the six-month period under review were £40.9 million compared to £40.0 million in the same period in 2003. Group Operating profit in the same period was £2.2 million against £4.3 million in 2003. Profit before tax in the first half was £2.0 million against £4.0 million in 2003. Earnings per share were 4.22 pence compared to 8.80 pence in 2003.

Administration expenses remained under strict control and represented 13.5% of sales (2003: 15.1%). Stocks at the six-month period were £5.92 million compared to £6.20 million in 2003. Cash at bank as at 29 February 2004 was £4.27 million (28 February 2003: £4.35 million).

The Group had unused bank and trade finance facilities at 29 February 2004 of £2.9 million (currently £6.6 million), and following the conversion of the Convertible Unsecured Loan Note by Valdidone SpA in November and December 2003, the Group became ungeared.

Dividend
In line with the Group's dividend policy re-introduced in 2003 and to underpin the Board's confidence in the Group's overall trading and prospects, the Directors have approved the payment of an interim dividend of 1.10 pence per share (2003: 1.00p), an increase of 10% over last year at the interim stage.

The interim dividend will be paid to shareholders on 30 July 2004 to shareholders on the Register as at 9 July 2004.

Review
The Toys & Games Division
A weaker than expected UK trading environment at retail impacted not only sales in the lead up to Christmas 2003 but has continued to date.

Although we continue to experience a challenging UK retail market, we are optimistic that our new product listings, which have substantially increased year on year, will provide a solid base to build and improve both our UK sales and exports as well as the overall profitability of this division. We believe this will be reflected in our last quarter of the 2004 financial year and in the important lead up to the 2004 Christmas trading period.

The Giftware Division
We have continued to focus on our product offering and the expansion of our distribution channels.

Whilst we have made good progress with expanding our distribution to major UK retailers, new product development has not been as advanced. In order for the Giftware division to take advantage of the skills available within the Toy & Games Division, the businesses will be combined to form a single division.

We expect to report on the progress made in this regard at the end of the financial year.

continued…

The Digital Division

This division saw an impressive 66% growth compared to 2003 and accounted for 40% of Group sales. This was achieved in spite of experiencing major difficulties with our US distribution.

With the exception of the USA territory, we have continued to witness a strong performance from this division within international markets where we continue to improve our presence and develop well, particularly in the UK where sales have significantly exceeded our targets.

As may be recalled, the Group announced on 21 January 2004 that it had appointed a new US distributor. Immediately following that appointment we began working closely with the new distributor, Uniden Digital Imaging, Inc ("Uniden") (a subsidiary within the Japan based Uniden Corporation group of companies), on the marketing and distribution of product within the USA. Following two very successful Trade Shows in the USA, namely PMA and CES where we generated significant interest from the market in our digital product range, Uniden, without warning, explanation or lawful excuse withdrew unilaterally from our agreement in March 2004.

We have taken legal advice as to the potential for making a formal claim against Uniden and certain of its related group companies and have been advised that we have a strong case, which we intend to vigorously pursue if we are unable to reach a settlement to compensate World Wide Licences ("WWL") for the substantial damages that Uniden's peremptory actions have caused.

The commercial impact of this action by Uniden has been to lose new sales opportunities in the US generated in response to the initial marketing efforts, delay building our digital sales presence within the important US market as well as disrupting the sales and service to some of our pre-existing US customers.

Since early March, we have been working and negotiating with other potential distributors who are in a position to quickly pick up and exploit the opportunities already created in the first quarter of this calendar year.

I am pleased to report that following negotiations with a number of potential and interested distributors, we have agreed terms in principle with a new distributor who more than meets our requirements and will be able to develop a substantial business for us within North America. A further announcement will be made in that regard in due course.

During the period, we have successfully continued to improve the quality and ranges of our cameras. The introduction in the Summer of our 'point and shoot' Polaroid camera using Fovean technology will give us a clear lead over our competitors in this market and we believe that, together with our proposed new US distributor, we should see a significant uplift in sales.

We are also working closely with the Polaroid Corporation to develop a more integrated approach to product development which should result in our producing cameras to a higher standard which will meet the ever-increasing demands of the consumer, thus resulting in higher sales.

In addition to our new camera ranges we will be introducing our new range of own developed Karaoke products to the market in the second half of the year. We intend to fully utilise our newly developed technical, research and design skills and resources in establishing new product categories as the opportunities arise.

Board and Management Changes

The Group will in future operate two distinct divisions; the Digital Division and the Toys, Games & Gifts Division.

The Board believes that in order to take advantage of growth opportunities as they arise it should at this time review the constitution of the Board, the Divisional structure and the operational management team.

continued…

As part of this review, I am pleased to announce that David Harris will join the Board as an additional independent Non-Executive Director with effect from 1 May 2004. David, aged 54 is Chief Executive of InvaTrust Consultancy Limited which specialises in providing advice on investment and marketing issues to the fund management industry. He has extensive financial experience gained over a 30-year career. He is currently also a non-executive director of three public investment trust companies and also acts as a consultant to the board of a hedge fund trust. His considerable financial experience, in both executive and non-executive capacities, will considerably enhance the overall skill base of the Board whilst enabling the Group to comply to a greater degree with current standards of Corporate Governance.

Any further changes will be announced to shareholders in due course.

Outlook

Within the digital products business, we are looking to achieve another solid performance in the second half and, with the US distributor anticipated to be in-place shortly, we expect a contribution to the Group's digital product performance from the US by the end of the financial year.

Whilst trading continues to be tough within the toys, games and giftware sectors, our internal forecasts currently indicate a much stronger performance for the second half of the financial year and, particularly, in the all important period leading up to Christmas 2004.

As we move forward, part of our overall growth strategy will be to develop and secure global partnerships so that we can establish additional successful distribution channels, in particular for our own developed toys, games and giftware product ranges.

The Directors remain confident for the full financial year to August 2004 and do not expect profits to be less than the previous financial year ended August 2003.

The Character Group plc
Interim results for the six months ended 29 February 2004

Consolidated Profit and Loss Account

	Note	**6 months to 29 February 2004 (unaudited)**	6 months to 28 February 2003 (unaudited) (as restated)	12 months to 31 August 2003 (audited) (as restated)
		£'000	£'000	£'000
Turnover		**40,903**	40,031	85,308
Cost of sales		**(26,824)**	(24,215)	(58,610)
Gross profit		**14,079**	15,816	26,698
Net operating expenses				
Selling and distribution costs		**(6,479)**	(5,518)	(9,138)
Administration expenses		**(5,533)**	(6,049)	(11,967)
Other operating income		**124**	51	526
Operating profit		**2,191**	4,300	6,119
Interest payable (net)		**(176)**	(254)	(563)
Profit on ordinary activities before taxation		**2,015**	4,046	5,556
Taxation	2	**(25)**	(437)	(287)
Profit on ordinary activities after taxation		**1,990**	3,609	5,269
Dividend	3	**(728)**	(410)	(1,310)
Retained profit		**1,262**	3,199	3,959
Earnings per share				
- basic	5	**4.22p**	8.80p	12.85p
- fully diluted	5	**4.11p**	6.65p	10.11p
Dividend per share		**1.10p**	1.00p	3.00p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**2,614**	4,753	7,128

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	**6 months to 29 February 2004 (unaudited)**	6 months to 28 February 2003 (unaudited) (as restated)	12 months to 31 August 2003 (audited) (as restated)
		£'000	£'000	£'000
Profit for the financial period		**1,262**	3,199	3,959
Foreign exchange differences		**(709)**	(150)	(185)
Total recognised gains and losses relating to the financial period		**553**	3,049	3,774
Prior period adjustment	1	**569**		
Total gains and losses since last annual report		**1,122**		

The Character Group plc
Interim results for the six months ended 29 February 2004

Consolidated Balance Sheet

	Note	**29 February 2004 (unaudited) £'000**	28 February 2003 (unaudited) (as restated) £'000	31 August 2003 (audited) (as restated) £'000
Fixed assets				
Intangible assets		**712**	1,000	737
Tangible assets		**1,612**	1,949	1,876
Investments		**2**	2	2
		2,326	2,951	2,615
Current assets				
Stocks		**5,924**	6,195	8,143
Trade debtors subject to finance arrangements		**2,376**	3,790	7,302
Factor advances		**(1,864)**	(3,077)	(5,401)
		512	713	1,901
Trade and other debtors		**9,306**	8,896	16,776
Cash at bank and in hand		**4,269**	4,347	3,932
		20,011	20,151	30,752
Creditors : amounts falling due within one year				
Convertible loan note		**-**	-	(4,600)
Other creditors		**(11,979)**	(12,778)	(23,504)
Net current assets		**8,032**	7,373	2,648
Total assets less current liabilities		**10,358**	10,324	5,263
Creditors: amounts falling due after more than one year				
Convertible loan note		**-**	(4,600)	-
Other creditors		**(3)**	-	(4)
		(3)	(4,600)	(4)
Net assets		**10,355**	5,724	5,259
Capital and reserves				
Called up share capital		**2,640**	2,064	2,064
Shares to be issued	9	**-**	1,190	-
Investment in own shares		**(908)**	(908)	(908)
Capital redemption reserve		**15**	15	15
Share premium		**11,810**	7,843	7,843
Merger reserve		**651**	651	651
Profit and loss account	4	**(3,853)**	(5,131)	(4,406)
Equity shareholders' funds		**10,355**	5,724	5,259

The Character Group plc
Interim results for the six months ended 29 February 2004

Consolidated Cash flow Statement

	Note	**6 months to 29 February 2004 (unaudited)**	6 months to 28 February 2003 (unaudited) (as restated)	12 months to 31 August 2003 (audited) (as restated)
		£'000	£'000	£'000
Cash flow from operating activities	6	**2,174**	1,890	3,817
Returns on investment and servicing of finance				
Interest paid (net)		**(172)**	(250)	(562)
Interest element of finance lease rental payments		**(4)**	(4)	(1)
Net cash outflow for returns on investments and servicing of finance		**(176)**	(254)	(563)
Taxation		**(334)**	(59)	(285)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		**(215)**	(512)	(1,038)
Sale of tangible fixed assets		**-**	2	24
Purchase of business and assets		**-**	-	(902)
Net cash outflow for capital expenditure and financial investment		**(215)**	(510)	(1,916)
Equity dividend paid		**(1,050)**	-	(410)
Cash inflow before use of liquid resources and financing		**399**	1,067	643
Management of liquid resources:				
Financing				
Capital element of finance lease rentals		**(4)**	(4)	5
Expenses on conversion of loan stock		**(58)**	-	-
Net cash outflow from financing		**(62)**	(4)	5
Increase in cash in the period	8	**337**	1,063	648
Decrease in net debt in the period	8	**341**	1,067	643

The Character Group plc
Interim results for the six months ended 29 February 2004

Notes to the Accounts

1. Basis of Preparation

The financial information for the six months ended 29 February 2004 has not been audited, nor has the financial information for the six months ended 28 February 2003. However, the interim report includes a review report signed by the auditors. The comparative figures for the year ended 31 August 2003 do not constitute the company's statutory accounts for that year, but have been extracted from the statutory accounts filed with the Registrar of Companies, and which carried an unqualified audit report. The report has been prepared in accordance with the applicable accounting standards on a consistent basis using the accounting policies set out in the 2003 annual report, except for the change noted below.

Prior period adjustment
UITF abstract 38: Accounting for ESOP trusts
UITF 38 has been adopted in preparing these accounts, resulting in the transfer of the Group's investment in its own shares from fixed asset investments to shareholders' funds. In accordance with UITF 38, the investment in own shares is recorded at cost. At 29 February 2004, the market value of these shares was £323,475, (31 August 2003 : £339,000, 28 February 2003 : £134,000).

Restatement
The balance sheet comparatives as at 28 February 2003 have been restated by transferring trade debtors that are not subject to factoring arrangements to the appropriate balance sheet heading. This transfer reflects the accounting treatment adopted in the year end accounts.

2. Taxation

The tax charge for the half year is estimated on the basis of the anticipated tax rates applying for the full year.

3. Dividend

The dividend includes an amount of £150,000 relating to the final dividend for the previous year. This dividend amount became payable following the conversion of the loan note.

4. Profit and Loss Account

	£'000
At 1 September 2003	(4,975)
Prior period adjustment	569
At 1 September 2003 – as restated	(4,406)
Profit retained for the six months	1,262
Exchange difference	(709)
At 29 February 2004	(3,853)

continued…

5. Earnings per Share

Earnings per share have been calculated in accordance with FRS14 Earnings per share. The calculations are based on the following:

	Profit after Taxation £	Weighted average number or ordinary shares	Pence per share
6 months to 29 February 2004			
Basic earnings per share	1,990,000	47,110,052	4.22
Impact of share options	-	1,289,706	(0.11)
Diluted earnings per share	1,990,000	48,399,758	4.11
6 months to 28 February 2003			
Basic earnings per share	3,609,000	41,002,909	8.80
Impact of shares to be issued	-	2,505,263	(0.51)
Impact of share options	-	480,158	(0.09)
Impact of convertible loan note	80,500	11,500,000	(1.55)
Diluted earnings per share	3,689,500	55,488,330	6.65
12 months to 31 August 2003			
Basic earnings per share	5,269,000	41,002,909	12.85
Impact of shares option schemes	-	1,224,118	(0.37)
Impact of convertible loan note	161,000	11,500,000	(2.37)
Diluted earnings per share	5,430,000	53,727,027	10.11

6. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	6 months to 29 February 2004 (unaudited) £'000	6 months to 28 February 2003 (unaudited) £'000	12 months to 31 August 2003 (audited) £'000
Operating profit	**2,191**	4,300	6,119
Depreciation, impairment and amortisation	**423**	453	1,009
Loss on disposal of tangible fixed assets	**-**	2	(3)
Decrease/(increase) in stocks	**2,219**	(1,212)	(3,161)
Decrease/(increase) in debtors	**8,859**	1,523	(6,659)
(Decrease)/increase in creditors	**(10,809)**	(3,026)	6,697
Exchange differences	**(709)**	(150)	(185)
Net cash inflow from operating activities	**2,174**	1,890	3,817

7. Reconciliation of Net Cash Flow to Movement in Net Debt

	6 months to 29 February 2004 (unaudited) £'000	6 months to 28 February 2003 (unaudited) £'000	12 months to 31 August 2003 (audited) £'000
Increase in cash in the period	**337**	1,063	648
Cash inflow/(outflow) from movement in debt and lease financing	**4**	4	(5)
Movement in net debt resulting from cash flows	**341**	1,067	643
Net debt at 1 September 2003	**3,923**	3,280	3,280
Net debt at 29 February 2004	**4,264**	4,347	3,923

continued…

8. Analysis of Net Debt

	Cash at bank and in hand £'000	Lease finance £'000	Total £'000
1 September 2002	3,284	(4)	3,280
Cash flow	1,063	4	1,067
28 February 2003	4,347	-	4,347
Cash flow	(415)	(9)	(424)
31 August 2003	3,932	(9)	3,923
Cash flow	337	4	341
29 February 2004	4,269	(5)	4,264

9. Shares to be Issued

	£'000
At 28 February 2003	1,190
Movement	(1,190)
At 31 August 2003 and 29 February 2004	-

Independent Review Report to The Character Group plc

Introduction
We have been instructed by the company to review the financial information for the six months ended 29 February 2004 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the notes to the accounts. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, therefore in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 29 February 2004.

Baker Tilly
Chartered Accountants
Chelmsford
28 April 2004